Wellington Climate Strategy Fund

WELLINGTON MANAGEMENT®

MARKET REVIEW

Global equities rose in September. Stocks fell sharply at the beginning of the month after declines in some mega-cap technology stocks and signs of a cooling US economy rippled across the globe and stoked concerns about the state of the global economy. However, stocks rebounded following a sizable 50 basis points interest-rate cut by the US Federal Reserve and a more forceful Chinese stimulus that bolstered market sentiment. Lower energy prices helped to ease inflationary pressures, and resilient labor markets in the US, Europe, and Japan reinforced the view that the global economy could achieve a soft landing. However, some key economic indicators were mixed across many developed nations, with services PMIs remaining in expansionary territory, while manufacturing PMIs continued to show sustained weakness. In China, markets were encouraged by more substantial policy support from the People's Bank of China, which aimed to revitalize the country's economic recovery. Politics garnered greater attention amid a close US presidential race and leadership changes in other countries; Shigeru Ishiba was elected as Japan's prime minister, Michael Barnier became France's prime minister, and Claudia Sheinbaum was sworn in as Mexico's first female president. Geopolitical risks intensified, with escalating conflict in the Middle East threatening to ignite a broader regional war after Israeli forces killed Hezbollah leader Hassan Nasrallah in Beirut.

FUND PERFORMANCE AND ATTRIBUTION

- On an estimated net basis, Climate Strategy was up in September and outperformed relative to the benchmark. YTD, Climate Strategy is up in absolute term but has underperformed relative to the benchmark.
- On an absolute basis, each climate theme contributed to this month's return. Contribution by theme sorted from highest to lowest:
    - Energy Efficiency
    - Low Carbon Electricity
    - Low Carbon Transport
    - Climate Resilient Infrastructure
    - Water and Resource Management
- Among our top absolute contributors:
    - Vertiv – part of our energy efficiency theme. They are an electrical equipment provider specializing in providing immersive cooling systems for data center and other heavy compute environments. Their technologies are used by customers to help drive energy efficiency and resilience given the critical workloads running on increasingly more intense compute requirements. Momentous positive sentiment drove the stock price of Vertiv in September, with continued ramp in Vertiv's liquid cooling solutions as data centers compute needs increase in power usage and intensity with the advancement and adoption of AI.
    - Acuity Brands – part of our energy efficiency theme. They are a leading provider of energy efficient technology with a focus on innovative lighting solutions. Positive quarterly earnings with a significant beat in EPS and strong margins resulted in positive price movement this month.
    - AZEK – part of our climate resilient infrastructure theme. They manufacture premium sustainable building materials made from recycled plastic that provide value by lowering maintenance needs, refining aesthetics, and reducing total cost. The stock gained positive momentum in September due, in part, to positive sentiment gleaned from a panel discussion with the CFO and VP of IR at the Jefferies Industrials Conference. The discussion focused on secular tailwinds in composite decking and company-specific drivers such as margin progress and a healthy M&A pipeline.
- Among our top absolute detractors:
    - Ferguson – part of our energy efficiency theme. They are a leading distributor of plumbing and heating products. Ferguson helps its customers save water, energy, and money by offering products and services that improve efficiency, performance, and sustainability. In line quarterly earnings but soft FY25 guidance implied a delayed housing inflection to investors, leading to a challenged stock price in September. However, sell-side analysts contend that rate cuts could positively impact demand in the mid-term, which aligns with our views on the housing shortage.
    - Republic Services – part of our water and resource management theme. They are a leading US-based provider of comprehensive waste management and environmental services. The stock benefited from positive earnings reported in August, but investor sentiment cooled in September for similar reasons cited by Ferguson, i.e. new construction weakness due to high interest rates. However, rate decreases announced in September could have knock-on impacts in the mid-term, with additional opportunities in their Environmental Solutions segment.
    - Enphase Energy – part of our low carbon electricity theme. They are a leading solar panel producer specializing in microinverter technology. This technology converts direct current (DC) from solar panels into alternating current (AC) for home use. Additionally, the company provides energy management software and battery storage solutions, empowering customers to generate, store, and manage clean and affordable energy. Similar to the above stocks, rates will likely significantly impact margins for residential solar, and sell-side analysts contend that Enphase is likely to be well positioned in the mid-term, though the short-term has had less positive sentiment, resulting in challenged stock performance in the month.

FUND POSITIONING AND OUTLOOK

We believe we are well positioned moving forward with a portfolio that is populated with industry leaders with powerful secular tailwinds tied to climate mitigation and adaptation. We also believe the broad equity market is showing signs of broadening to include companies outside of the mega-cap companies that have dominated markets that we believe could serve as a favorable market environment for the strategy.

More specifically, we believe there are attractive, idiosyncratic opportunities within four areas that we are focused on including:
- AI and the energy transition – AI is pulling the energy transition forward given the enormous amount of power it requires, creating compelling fundamental opportunities in companies that provide innovative and efficient data center construction and cooling solutions.
- Global industrialization – we believe an industrial renaissance is underway fueled by aging infrastructure and onshoring, increasing demand for select industrial software companies that use their data-driven, analytical, and AI-powered solutions to increase sustainability via energy and resource efficiency solutions.
- US housing – we believe we are within a secular bull market for housing given the structural undersupply/overdemand of homes. This coupled with increasing energy, water, and resource efficiency standards is benefitting select companies focused on building or supplying materials for newer, more efficient homes and infrastructure.
- Climate repricing – we believe select financial services companies that are on the forefront of incorporating the risks of climate into the financial system are underappreciated for their critical role in pricing climate within financial markets and quality of compounding earnings.

We remain convicted that our climate solutions opportunity set is broad and robust, which coupled with a philosophy and process that we have curated for over a decade can generate attractive relative performance over a market cycle while also having a meaningful, measurable positive impact on the climate.

RISKS

CAPITAL: Investment markets are subject to economic, regulatory, market sentiment and political risks. All investors should consider the risks that may impact their capital, before investing. The value of your investment may become worth more or less than at the time of the original investment. The Fund may experience a high volatility from time to time. **CONCENTRATION:** Concentration of investments within securities, sectors or industries, or geographical regions may impact performance. **CURRENCY:** The value of the Fund may be affected by changes in currency exchange rates. Unhedged currency risk may subject the Fund to significant volatility. **DERIVATIVES (C) (MKT):** Derivatives may provide more market exposure than the money paid or deposited when the transaction is entered into (sometimes referred to as Leverage). Market movements can therefore result in a loss exceeding the original amount invested. Derivatives may be difficult to value. Derivatives may also be used for efficient risk and portfolio management, but there may be some mismatch in exposure when derivatives are used as hedges. **EMERGING MARKETS:** Emerging markets may be subject to custodial and political risks, and volatility. Investment in foreign currency entails exchange risks. **EQUITIES:** Investments may be volatile and may fluctuate according to market conditions, the performance of individual companies and that of the broader equity market. **MANAGER:** Investment performance depends on the investment management team and their investment strategies. If the strategies do not perform as expected, if opportunities to implement them do not arise, or if the team does not implement its investment strategies successfully; then a fund may underperform or experience losses. **SMALL AND MID-CAP COMPANY:** Small and mid-cap companies' valuations may be more volatile than those of large cap companies. They may also be less liquid. **SUSTAINABILITY:** A Sustainability Risk can be defined as an environmental, social or governance event or condition that, if it occurs, could cause an actual or potential material negative impact on the value of an investment.

DISCLOSURE